

CITY OF SAN DIEGO
OFFICE OF THE INDEPENDENT BUDGET ANALYST

MONTHLY SNAPSHOT OF REPORTS AND ACTIVITIES FOR MARCH & APRIL 2012

Highlights of Major Reports Issued in the Months of March & April:

Report No. 12-12REV “FY 2013 City Council Budget Priorities”

As part of the annual budget process, each Councilmember submits their individual budget priorities to the Office of the IBA. Our office compiles them into a single Budget Priorities Resolution to be reviewed and adopted by the City Council. On November 8, 2011 the Budget & Finance Committee (B&FC) Chairman Todd Gloria requested that Councilmembers submit their individual budget priorities for FY 2013 to the IBA by March 2, 2012.

For FY 2013, Councilmember priorities focused on continuing to provide increased services to the citizens of San Diego through efficiencies and effectiveness, responsible and transparent governance, and fiscal stability. IBA report #12-12REV outlines the common areas which were consistently mentioned as budgetary priorities, either specifically or that could be captured in one of six categories. These categories include:

1. Funding of public safety
2. Continued restoration of service levels
3. Investment in streets and public assets
4. New innovations and partnerships
5. Economic development replacement
6. Specific one-time funding items that have no recurring impact on the City’s General Fund

This report also addresses the concept of City performance measures that represent City Council priorities and policies, as discussed at the February 3, 2012 and March 14, 2012 B&FC meetings. An attachment to report #12-12REV lists 66 performance measures that have been selected to represent City Council priorities. Twenty-eight of the proposed performance measures are already tracked by the Business Office, and departments are being contacted regarding the 38 new measures.

This revised report incorporates B&FC member input and revisions from the March 14, 2012 meeting. On March 19, 2012, the City Council voted unanimously to accept IBA report #12-12REV, and directed the IBA to transmit the report, along with each Councilmembers’ individual FY 2013 budget priorities, to the Mayor for consideration when forming the FY 2013 Proposed Budget.

Report No. 12-13 “Deferred Capital”

At the February 29, 2012 Budget & Finance Committee (B&FC) meeting, members discussed the Mayor’s Options A and B for deferred capital funding. Committee members expressed concern that service levels would deteriorate below existing levels without additional funding. After discussion, the B&FC voted to forward an *Enhanced* Option B to full Council, which uses \$8.3 million of the

Reports Highlighted for March & April 2012:

Report No. 12-12REV (3/15/12)

Attachment 1

Attachment 2

Attachment 3

“FY 2013 City Council Budget Priorities”

Report No. 12-13 (3/16/12)

Executive Summary

“Deferred Capital”

Report No. 12-15 (4/16/12)

Attachment 1

Attachment 2

“Approval of IT Service Contracts”

Report No. 12-16 (4/27/12)

“Review of the Fiscal Year 2013 Proposed Budget”



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projected \$16.5 million FY 2012 Adopted Budget surplus to increase cash funding of deferred capital projects in FY 2013. The Committee also requested that the IBA assess and provide information on other options to increase funding to match or exceed the Status Quo option and prevent further deterioration of assets.

IBA report #12-13 determines that in order to close the gap between the Status Quo option and Enhanced Option B, \$29.9 million would need to be identified for FY 2013, and \$84.7 million over the next five years. This report suggests seven possible funding options to close this gap, however, the IBA recommends that these should be considered once the City's financial condition is stabilized for a period of time and a successful track record for expending authorized funding has been firmly established. The seven possible funding options include future economic growth and surplus, General Fund reserves, Capital Outlay Fund, Development Impact Fees (DIF), Park Services District funds, Community Development Block Grants (CDBG), and voter approved General Obligation (GO) bonds.

The IBA stresses that although these sources could provide additional funds for deferred capital projects, there are factors that should be considered before increasing funding. While projected economic growth is promising, there will be changes in revenues and expenditures several times before year-end. Also, the City is facing many unknown factors that could impact the budget, such as the dissolution and unwinding of the Redevelopment Agency. In addition, numerous other funding priorities identified in the City Council Budget Priorities Resolution will also be competing for these resources. This report also points out that Public Works staffing capacity to deliver Enhanced Option B depends on CIP streamlining measure implementation which will not occur until FY 2013. The impact on project schedules and staff capacity is not fully known at this time.

While Enhanced Option B does not maintain the Status Quo, the difference between Enhanced Option B and a "Do Nothing" option shows that the investment will have an impact. Deterioration with the "Do Nothing" option is 37.5%, whereas Enhanced Option B provides for a slower rate of deterioration at 7.5%.

On March 20, 2012, this report was presented to the City Council along with the recommendation that Councilmembers approve "Enhanced Option B" Deferred Capital Funding Plan. The Council approved it unanimously.

Report 12-15 "Approval of IT Service Contracts"

On April 15, 2011 the City's Purchasing & Contracting Department released a Request for Proposal (RFP) to select a vendor to provide Information Technology (IT) Services for the City of San Diego for a five-year term with two one-year options. After review by the City's RFP evaluation team, Atos IT Solutions & Services, Inc., CGI Technologies & Solutions entered into contract negotiations with the City. At the April 18, 2012 Rules, Open Government & Intergovernmental Relations (Rules) Committee, IT Department staff asked the committee to approve the contracts with Atos and CGI for a total of \$117.8 million.

Report #12-15 provides a comparison between the new vendors (stated above) and the current vendors (San Diego Data Processing Corporation (SDDPC) and En Pointe). Several recommendations are made to the Rules Committee for three of the four IT service areas. These recommendations include:

1. Ask IT staff how contractual changes and related cost adjustments related to increases or decreases in services will be reported to the City Council.
2. Ask IT staff to explain why annual inflationary adjustments have been included in the Annual Baseline Costs when historical SDDPC budget data reflects decreases.

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3. Staff include information on what the annual expenses would be for the General and Non-General Funds as well as split for the anticipated savings.
4. Ask the IT staff to expand on what the operational benefits will be to the City as a result of the change in vendors.
5. Request that IT staff provide one-time transition costs by fund and the fiscal year in which they plan on expending these funds.
6. City Council discuss the future of SDDPC, as the approval of these contracts would leave the agency's future unclear.

As part of the Rules Committee's motion to forward the approval of these contracts to the full City Council, committee members requested that IT staff provide follow up to the recommendations made by the IBA, a transition plan for SDDPC, and a requirement in the vendors' contracts that quarterly workforce reports be provided to the City to verify the hiring of local employees.

This item was heard at the May 14th City Council meeting, and contracts for both Atos and CGI were approved unanimously. As part of the motion, an update on SDDPC's transition plan will be presented at the July 18, 2012 Rules Committee meeting.

Report No. 12-16 "Review of the Fiscal Year 2013 Proposed Budget"

The Mayor released his FY 2013 Proposed Budget on April 11, 2012. As part of the City's budget process, our office examines the Mayor's budget and releases a detailed review of the Mayor's Proposed Budget. Report #12-16 addresses the City's improved position, along with an in depth analysis of departmental budgets and citywide issues.

Overall, the IBA recognizes that the City is in a far better position than just two years ago. Numerous reforms and cost reductions paired with gradual growth in the economy have contributed to this improved position. However, our office maintains that challenges remain, and the City should continue to adhere to the "Guiding Principles for Eliminating the Structural Budget Deficit" now more than ever. For the FY 2013 Proposed Budget, the \$31.8 million projected deficit, which was identified in the November 2011 Five-Year Outlook, has been eliminated with savings and increased revenue, and is discussed further in our report. Additionally, there were no "one-time" solutions used to balance the budget, as in previous fiscal years.

The FY 2013 Proposed Budget also continues service restorations that were implemented as part of Mid-Year adjustments. Library hours, recreation center hours, and fire ring maintenance, as well as funding for other priority services have been funded by identifying new resources to support these additions.

As previously discussed in the highlights of "Report No. 12-12REV", the FY 2013 City Council Budget Priorities Resolution was transmitted to the Mayor by our office. Report #12-16 notes that eleven of the twenty-eight Council priorities outlined in the Council Budget Priorities Resolution were addressed in the FY 2013 Proposed Budget. The IBA also suggests additional items that the Council may want to consider and identifies one-time available resources, both of which were not addressed in the Proposed Budget.

Report #12-16 was presented to the Budget Review Committee on May 2, 2012, and the Committee reviewed departmental budgets from May 2nd - 4th and May 9th - 11th. The Mayor's May Revise is expected to be released on May 23rd, and Councilmembers will issue their final memos regarding the budget to the IBA by

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June 1st. The IBA will review these memos and include priorities in our office's June 6th release of the Final Report on Recommended Changes to the Mayor's Proposed Budget.

Other Reports Released in March & April 2012:

Report No. 12-04 Update (3/15/12)

Update Attachment 1

"CIP Streamlining and Contracting Improvements"

Report No. 12-14 (4/5/12)

"Recommendations for an Independent External Audit of the City's internal Controls"



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